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FOREIGN DIRECT INVESTMENT IN INDIA IN RAILWAY SECTOR

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ABSTARCT: With Foreign Direct Investment in almost all the sectors, FDI has finally found its way into Railway sector as well. The sector which was Public is on way to work on a Public Private Partnership model. This paper talks about the Foreign Direct Investment in Railways sector and its impact on the Indian economy and in what areas FDI will be allowed, followed by conclusion.

INTRODUCTION

Foreign Direct Investment (FDI) means investment made into business of a country by a company in another country .In other words, FDI is basically a cross border investment which is made by a resident of one economy in an enterprise in another economy, with main motive of establishing the lasting interest in the economy where investment has been made. Why does a country need FDI in any sector? There are many reasons; few of them are discussed here. Firstly, domestic capital is inadequate for economic growth purposes. Secondly, foreign capital is important as a temporary measure as well, as during the period when capital market is in the process of development. Lastly, as foreign capital enters into the economy, it brings along scarce productive factors like new technology, business expertise and knowledge.

In 1991, with liberalization in India, 8 sectors were left out of FDI. These were Defence, Atomic Energy, Coal, Mineral Oil, Mining of important minerals, certain minerals of atomic energy and Rail Transportation. As railways is the most widely used mode of transportation catering the need of 23 million passengers every day. In the 66 years since independence, India has added 13,000 km of new railway lines bringing the total size to about 64,000 km. From 2006 to 2011, only 1,750 km of new lines are added. Therefore, there is a need for improvement in the infrastructure and development of this sector which was government funded, FDI in railways became a necessary measure as this sector was cash-strapped sector as the revenue from railways was very low as compared to expenditure incurred by railways sector leaving a very little surplus. Hence, we need FDI in Railway sector. As noted by the railway minister in his speech while presenting the railway budget for 2014-2015, the gross traffic receipts for the 2013-2014 was INR 1,395,580 million whereas total working expense on railways for the same year was INR 1,303,210 million, it was highlighted that the surplus was only INR 6,202 million after paying obligatory dividend and lease charges. This surplus amount is inadequate for developments in railways.

FDI IN RAILWAYS

FDI policy is controlled by Department of Industrial Policy and Production (DIPP), Ministry of Commerce and Industry. According to the notification issued in August 2014, Government of India has revised the list of industries reserved for public sector and has permitted private investment in certain activities pertaining to the railways sector.In 2001, FDI was permitted in the automatic route for mass rapid transport systems in all metropolitan cities up to 100%. But now, FDI has been permitted in the railway sector which was earlier prohibited under Consolidated FDI policy, subject to following conditions- sectoral guidelines which are issued by Ministry of Railways and other being that proposals which involves more than 49% of FDI will be brought before the Cabinet Committee on Security for consideration by the Railway Ministry from a security point of view.

The revised policy and notification allows FDI in construction, operation and maintenance of Suburban corridor projects through Public Private Partnership (PPP)model, High speed train project, Infrastructure in Industrial park, Mass rapid transport system (MRTS), Freight lines, rolling stocks, railway electrification, signaling system, freight terminals and passenger terminals. Let us now discuss these briefly.

Suburban corridor projects through Public Private Partnership (PPP) model- Suburban corridor project are those projects which enables population living in urban areas to travel to the city using railway lines.The use of PPP model was felt and it was decided to bring private investment in railways for redevelopment of stations, logistic parks, locomotives and coach manufacturing units, etc. as it was noted that few of the PPP models have been profitable in past so we need move PPP projects to help railway for redevelopment.

Ministry of Railways, Government of India, has formed High Speed Rail Corporation of India Limited (HSRC) for development and implementation of high speed rail projects. As India does not have a good tracks to roll high speed trains on them, first India needs to invest in tracks to fasten their trains above their average speed, the aim of reaching to the speed of 250kmph is very far. These new railway tracks will not have any link with existing railway tracks.

Infrastructure in Industrial parks, the definition of infrastructure and common facilities have been revised in relation to industrial parks in the Consolidated FDI Policy to include railway line or sidling including electrified railway lines and connectivity to the main railway line. As railway sidling are tracks with low speed which connect to main tracks, which are used for low speed and less heavy traffic.

Now, the Mass Rapid Transport System (MRTS) which means transport system for quick travelling within the city for a large number of people. The Urban MRTS project includes cities like Bangalore, Mumbai and Delhi.

The other key areas where 100% FDI is allowed are discussed below. Installation of bio-toilets in passenger coaches and their maintenance. To provide technological solutions for manned and unmanned level crossings and to improve safety and to reduce accidents by installing asset failure detecting systems.FDI in rolling stock procurement and mechanized laundry. Investments for setting up Railway Technical Training Institutes. Construction of world class passenger terminals and the maintenance of the existing stations. Freight lines, railway electrification, singling system, freight terminals: freight lines are lines specialized for the movement of freights only in order to reduce the burden of the passenger lines and rolling stocks are the locomotives, cars, wagons and coaches.

FDI IN RAILWAYS IS GOOD OR BAD?

As we have seen where all the FDI is allowed in railway sector. Now let us look how will these changes affect the Indian economy. With foreign capital inflows there will be technological change, which will help India to have new technologies and as economy opens up it brings best management practices from all over the world. Railway sector will have new technology and development in railways would also help in increasing the rate of growth of India. Given the approval of high speed trains and better facilities for people using railway as mode of transportation, would definitely increase number of people using trains and that will increase revenue.

Now let us look at the cost side, let us take an example, an air fare between Mumbai and Ahmedabad booked one month advanced is INR 1,999 as compared to INR 1,870 and INR 960 for EC and II chair car. With the arrival of new entrants like Air Asia there will be more competition in the air, the fare may further come down in the range of INR 1,500. This shows that it would be difficult for Railways to keep its present clients let alone the high speed trains. This calls for a question do we really need high speed trains? If we invest in airways it would be cheaper because it does not need a track to fly on, we can increase the airport area it would be cheaper than building tracks for high speed trains. However, for freight traffic, FDI can really help.

With FDI comes new technology from abroad but India can manufacture and work on new technology on its own given the capital for research. As there are many Indian industries ready to invest in the manufacturing of rolling stock. Technology to support indigenous manufacturing is available with the Indian industry and there are only few issues requiring support through FDI. The unfortunate thing is that there is resistance from unions of Railway production units and making specification without consulting Indian industry. There is a race to bring in technology from abroad but not to develop and take risk with the engineers from its own origin.

FDI in railways will generate employment for labors for construction of rail roads and infrastructure; on the other hand it will affect thousands of people who get jobs under reservation in Railways due to Railway sector becoming Public Private Partnership.

CONCLUSION

With the 100% Foreign Direct Investment in Suburban corridors, High-speed train systems and Freight line projects implemented through Public Private Partnership; there are some positive and some negative effects of FDI in Railway sector. As FDI in Railways was proposed in 2013 by the railway minister then Mr. Pawan Kumar Bansal, and in 2014, 100% FDI is allowed in Railways with terms and conditions. There is only a gap of one year when FDI was proposed and when FDI was allowed, in 2013, BJP opposed the proposal of FDI in Railways and with BJP as a new Government in 2014 approved of FDI in Railways. As FDI in a Public Sector is a major step. There should be more research on this ground and government should try to find a suitable way in which Indian Industries could help in manufacturing for the railway sector, improving the engineering techniques of Indians and developing Indian Industries by developing Railway sector. The development of both simultaneously will help India to increase rate of growth and improve the domestic industries and increase employment, as FDI shows that domestic industries are not capable of producing and competing with the world market.

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